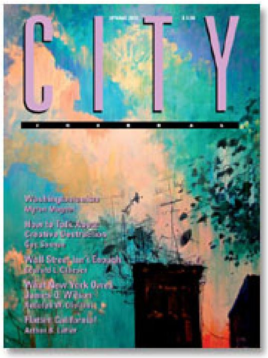

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Eye on the News

GUY SORMAN

Growing Out of Poverty

A World Bank report makes clear how free markets—and U.S. leadership—have led millions to better lives.

9 April 2012

The most significant events often escape media attention. How many would know from reading their daily newspaper or watching television that we live in an unprecedented economic period when the number of people living in extreme poverty is declining fast? According to a just-published World Bank report, the percentage of people living on less than $1.25 per day—or its local equivalent—has plummeted from 52 percent of the global population in 1981 to 22 percent in 2008. The World Bank doesn't provide more recent data, but other indices show that the 2008 financial crisis did not interrupt this trend. For millions of households, crossing the symbolic $1.25 threshold means leaving destitution behind and moving toward a more dignified life—no trivial achievement. Moreover, this escape from poverty happens while the global population continues to grow. Doomsday prophets who warned about a ticking "population bomb" have not been vindicated, to say the least. Global warming messiahs, beware: human ingenuity proves able to cope with the predicaments of Mother Nature.

Thirty years ago, half of the planet lived in utter misery, and many commentators argued that poverty was destiny. At best, most pundits conceded that pockets of poverty could be alleviated through international aid. Only a handful of economists begged to differ: Theodor Schultz, Milton Friedman, and Peter Bauer were the mavericks advocating free-market policies for every nation as the way out of poverty. They have been proven right. China's economy has been growing since the mid-1980s—when Deng Xiaoping, its de facto leader, abandoned central planning, opened the borders for foreign investment, and promoted entrepreneurship at home.

In 1991, after the Soviet economic model proved bankrupt, India left behind its socialist ideology, opened its borders to foreign competition, and deregulated its economy. The economies of the two most populous countries on earth have grown without interruption ever since. Remember, too, that South Korea and Taiwan understood the virtues of free markets long before China or India discovered them. Many smaller countries, across a huge range of cultures, soon followed suit. African governments, too, converted to free-market economics with significant results— Kenya, Uganda, Senegal, and Sierra Leone, among others. The International Monetary Fund, though useless as a lender, has proven beneficial in Africa by persuading local leaders to create independent central banks, which now manage reliable and stable currencies. The central banks, among other free-market institutions, have ignited economic growth in Africa, formerly ravaged by hyperinflation. The reconversion to monetary stability has also played a decisive role in rekindling Brazil's economy, which had been stalled in the 1970s by monetary follies.

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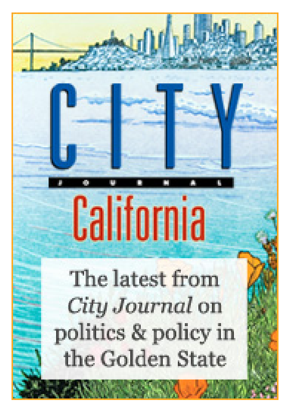

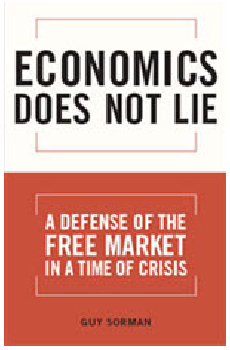

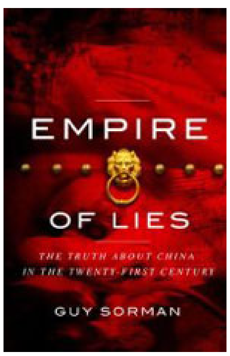

Global growth, thus, is not a miracle, but the outcome of sound economic policies. This confirms what free-market economists have been writing since 1776, when Adam Smith published his *Wealth of Nations*: economic policies based on entrepreneurship, open borders, and competition, prove successful. Socialism, promoted throughout the twentieth century as a way to bridge the gap between poor and rich countries, has failed everywhere. The debate is over, or should be. Humanitarian aid has helped alleviate misery in specific conditions, but it is no substitute for sound economic policy.

In spite of this undisputed record, prominent economists, public intellectuals, and columnists continue to deny reality and tout various alternatives. The iconic Columbia University professor, Jeffrey Sachs, who had been a candidate to chair the World Bank, still argues that massive international aid will lead Africa out of poverty. With support from conscience-plagued Western donors, he funds Potemkin villages, mostly in Malawi, where movie stars fly in for photo opportunities. In a just-published and well-reviewed book, *Why Nations Fail*, two Harvard University professors, Daron Acemoglu and James Robison, argue that equality is the basis for economic development. Through a compelling collection of historical vignettes, the authors suggest that more egalitarian countries grow faster than elitist countries. True enough: what they call *inclusive institutions*—rule of law, property rights, and reliable justice, as found in most democratic countries—are far more productive than the *extractive institutions* found in despotic regimes, which exploit local resources and people for the benefit of the elite. This is common wisdom. But Acemoglu and Robinson jump to a purely ideological conclusion: that social equality is a precondition for sustained growth. In fact, the reverse is true. Equality is the *outcome* of economic growth. Some Harvard academics are clearly not ready to reconcile themselves with observed reality when it doesn't fit their agenda.

A key factor that seems to escape most commentators and social scientists—and World Bank officials, for that matter—is the decisive role the United States economy plays in reducing global poverty. Economics departments in American universities are—with some exceptions on the coasts—the cradle of free-market economics. In all developing countries, the economists in charge have been educated in the United States or worked there. This is clearly the case in China, India, and most of Africa's emerging economies. Free-market institutions around the world have been modeled on U.S. institutions, starting with the central banks. Technical and managerial innovations in these emerging countries have been imported (sometimes smuggled) from the United States. Ultimately, the American consumer is the growth engine behind the Chinese, Indian, or Filipino success story. Shut down Walmart, and China stalls. It nearly did in 2008, at the outset of the U.S. real estate bubble.

The U.S. trade deficit has been a godsend for the rest of the world since 1945. It has not made America poorer, and it won't harm Americans as long the benefits emerging countries generate from it are recycled in U.S. dollars. Consider this nugget from the World Bank report: remittances from Mexican workers in the United States to their families back home amounted to $22 billion in 2010—a major source of poverty alleviation in Mexico, and a benefit proudly made in America.

Guy Sorman, a City Journal *contributing editor, is the author of* Economics Does Not Lie *and other books.*

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